CBHE News
missouri coordinating board for higher education

July 2001 Volume 20, No. 5

CBHE Members

CBHE elects officers

From left: Newly elected Coordinating Board officers Marie Carmichael, chair; Jim Summers, Jr., secretary; and Sandra Kauffman, vice chair, pose for a photo with Dr. Kent Farnsworth, president of Crowder College.

Marie Carmichael is the new chair of the Coordinating Board for Higher Education.

During their June 7 meeting at Crowder College, Coordinating Board members elected Carmichael as chair; Sandra Kauffman, vice chair; and Jim Summers, Jr., secretary. The officers serve one-year terms.

"I am delighted to serve as chair, along with vice chair Kauffman and secretary Summers," said Carmichael, upon her election. "I look forward to working with Commissioner Stroup and the board on the implementation of a new strategic plan to meet Missourians' educational needs."

Carmichael was first appointed to the Coordinating Board in 1994 and was reappointed for a second six-year term last year. She previously served two terms as chair and two terms as vice chair of the board.

During her tenure, Carmichael has been highly involved in the Missouri K-16 Coalition's efforts to design an integrated curriculum across educational levels, and she has been a champion of accountability and higher expectations for all Missouri higher education institutions and students. She also serves as chair of the Missouri Advanced Placement Advisory Board.

In addition, Carmichael taught English at both the college and high school levels. She has been involved in numerous community activities and presently serves on the Ozarks Technical Community College Workforce 2000 planning group as well as the Advisory Board for Greenwood Laboratory School. An active Democrat, Carmichael has worked on numerous state and national campaigns.

Carmichael holds a bachelor's degree in English from Pittsburg State University (Kan.) and a master's degree in English from the University of Arkansas, Fayetteville, where she was awarded a graduate fellowship.

Prior to her appointment to the Coordinating Board in January 2000, Kauffman was a member of the

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in this issue

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Missouri higher education releases annual report

The Coordinating Board for Higher Education released the 2000 annual report of Missouri higher education during its June 7 meeting at Crowder College.

Building One System is a compilation of the actions of the Coordinating Board and the activities and achievements of Missouri higher education. The annual report takes a final look at the results accomplished through the strategic plan known as the Blueprint for Missouri Higher Education, which was adopted by the board in 1996.

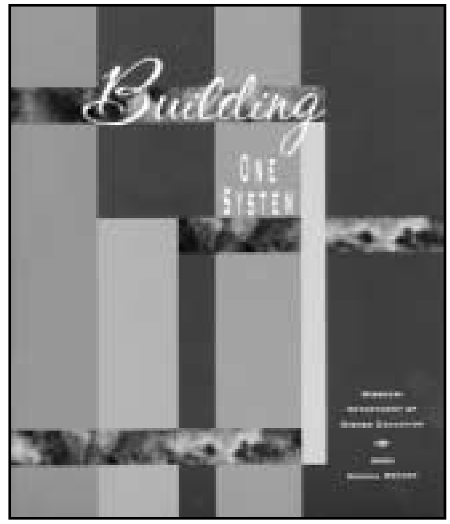
Under the Blueprint, Missouri higher education made significant progress in:

- enhancing its quality and efficiency by differentiating institutional missions;
- improving financial access;
- coordinating the use of educational technology and other resources through MOREnet, MOBIUS and the Missouri Learners' Network;
- expanding access to technical education throughout the state and
- ensuring the quality of educational programs by annually evaluating the performance of institutions and their students.

The report also highlights progress made in implementing the recommendations of the Missouri Commission on the Affordability of Higher Education and the Missouri K-16 Coalition.

The 2000 annual report will be presented to Gov. Bob Holden and the Missouri General Assembly as well as to educational leaders throughout the state. It also is available online at www.cbhe.state.mo.us.

Also during the June meeting, Coordinating Board members adopted a proposed framework that outlines the vision, mission, values and goals for a new strategic plan for Missouri higher education. The framework will be used to refine the draft text of The Coordinated Plan for Missouri Higher Education and to develop measures to monitor the progress in implementing the plan. The Coordinated Plan will continue many of the initiatives of the Blueprint and introduce others to address new challenges as it sets the priorities for Missouri higher education for the next several years. A complete draft of the plan is expected to be presented to the board in October.



The 2000 annual report of Missouri higher education, Building One System, is available online at www.cbhe.state.mo.us.

Coordinating Board members also approved the basis for a new methodology for developing budget recommendations for the state's colleges and universities. State statutes require the Coordinating Board to submit annual appropriations requests to the Missouri General Assembly on behalf of the public colleges and universities. The new methodology is simpler and more understandable, and it takes into account statewide priorities and the performance of institutions.

In addition, the board made appointments to subdistricting committees for Crowder College, Mineral Area College, St. Louis Community College and Three Rivers Community College. The committees will adopt plans to divide their respective districts into subdistricts for the election of trustees.

The board also elected new officers for the upcoming year, adopted guidelines for prioritizing higher education capital improvement project funding requests for FY 2003 and discussed FY 2002 appropriations and legislation relating to Missouri higher education that was passed during the 2001 legislative session.

MAY • 2001
money

INVESTING FOR COLLEGE

The 529 solution

THESE STATE-RUN COLLEGE SAVINGS PLANS ARE A GREAT NEW TOOL FOR PARENTS. HERE'S WHO SHOULD INVEST IN A 529, ADVICE ON HOW TO PICK ONE AND OUR FIVE FAVORITES.

FOR PARENTS struggling to save enough money for their children's college bills, tax breaks have been few and frustrating. An Education IRA? So far, all you can put away is a paltry \$500 a year—barely enough for pizza money—and that's only if you don't bump up against strict income limits. A custodial account? The tax savings are minimal, and you give up control of the assets to your kid. State-run prepaid tuition plans? They lock you into subpar returns. Little wonder that most parents end up saving in taxable accounts—thereby sacrificing a big piece of their profits to Uncle Sam—or raiding their retirement accounts. ■ Enter the 529. These state college savings plans, named after the section of the tax code that governs them, are the more attractive younger siblings of prepaid tuition programs. Anyone, regardless of income, can open an account and invest a hefty amount in stock and bond funds (more than \$150,000 in many states). Most plans let you in with as little as \$25 a month. The money can be used at any school in the country, and you keep control until the child goes to college. Best of all, the money grows tax-free until it's withdrawn, when earnings are taxed at the student's rate, usually 15%. (There are proposals in Congress to make 529s completely tax-free, as well as to expand the Education IRA.) To top it off, many states offer additional tax breaks of their own.

Given the generous tax advantages—plus the opportunity to shelter enough cash to actually make a dent in those six-figure tuition bills—529s are on their way to becoming the collegiate version of the 401(k). Today some 35 states operate 529 savings plans; 29 of them are available to residents of any state. Six more states will launch 529s by year-end, and another two states have authorized programs this year. More good news: States are increasingly turning over the operation of their 529s to established money-management firms. TIAA-CREF, with 12 state plans, dominates the field, but

ADDITIONAL REPORTING BY
MEGAN JOHNSTON,
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BY PENELOPE WANG

others are grabbing a piece of the action—among them Fidelity (three states), Merrill Lynch (three) and Salomon Smith Barney (two)—using the states as launching pads to market plans nationwide.

Investors have already stashed $2.5 billion in 529 plans, an amount that could grow to $10 billion by 2002, according to Joseph Hurley, who runs savingforcollege.com, a website that tracks college savings plans. Declares Hurley: "People are starting to realize that 529s are the best college savings plans to come along."

We agree, with a few reservations. Unlike 401(k)s, these new programs—most are no more than a year or two old—may not be right for everyone. One major limitation is the lack of flexibility: Once you select an investment option, you cannot change it—unless you follow a cumbersome rollover procedure. If you need to tap the account for any reason other than education, you will pay a 10% penalty. Another flaw: A 529 account can end up hurting your chances of obtaining financial aid (as we'll explain in a few minutes).

So how do you know if a 529 is for you? That's what the first section of this special report will help you determine. If your answer is yes, the following section will help you figure out which of the 38 states with plans (or plans on the verge of opening) best suit your situation—taking into account taxes, investment options, management fees and so on. Finally, we will outline how best to manage a 529 plan once you've signed up.

We also answer the 10 most frequently asked questions about 529s in the box on page 102. And, in the tables that begin on the facing page, we present a state-by-state assessment of the most important 529 features and identify the plans that stand out. We're con-

State by State

In the tables that follow, you'll find the highlights of our survey of the 38 state savings plans that are open or due to open soon (for the status of the other 12 states and the District of Columbia, see the box on page 101). We've identified the five top choices for anyone—and 12 other plans whose tax perks make them great options for state residents. For those who want to shop nationally, we've included the key information you need to compare plans, including resident state tax benefits, typical expenses and investment options. For an expanded version of this table, go to www.money.com.

Recommended for residents and national shoppers

Recommended for state residents only

Caution: high expenses or sales charges may apply

Plan being **overhauled**

Plan **not open** yet

	STATE/MANAGER PLAN NAME	MAXIMUM CONTRIB.[1]	STATE TAX BREAKS: MAX. ANNUAL DEDUCTION SINGLE/JOINT	STATE TAX BREAKS: TAX-FREE WITHDRAWALS	AGE-BASED ASSET ALLOCATION EQUITY/FIXED INC.: AT AGE THREE	AGE-BASED ASSET ALLOCATION EQUITY/FIXED INC.: AT AGE TEN	NUMBER OF NON-AGE-BASED FUND OPTIONS: EQUITY	NUMBER OF NON-AGE-BASED FUND OPTIONS: FIXED INCOME	EXPENSE RATIO[2]	WEBSITE (WWW.) TELEPHONE
	ALASKA *T. Rowe Price* University of Alaska College Savings Plan[3]	$250,000	NO STATE INCOME TAX				2	2	0.95%	*troweprice.com/college* 800-369-3641
	ARIZONA *Securities Management & Research* Arizona Family College Savings Program	168,000	0 S 0 J	✓	—	—	7	3	1.42[7]	*smrinvest.com* 888-667-3239
	ARKANSAS *Merrill Lynch* The GIFT College Investing Plan	125,000	0 S 0 J	✓			2	1	1.80	*thegiftplan.com* 877-442-6553
	CALIFORNIA *TIAA-CREF* ScholarShare College Savings Trust	165,886[4]	0 S 0 J				2	1	0.80	*scholarshare.com* 877-728-4338
	COLORADO *Salomon Smith Barney* Scholars Choice College Savings Program	150,000	NO LIMIT	✓			1	2	1.29	*scholars-choice.com* 888-572-4652
	CONNECTICUT *TIAA-CREF* Connecticut Higher Education Trust	235,000	0 S 0 J	✓			1[5]	1[5]	0.79	*aboutchet.com* 888-799-2438
	DELAWARE *Fidelity* Delaware College Investment Plan	131,480	0 S 0 J				2[6]	—	1.10	*fidelity.com/delaware* 800-544-1655
	IDAHO *TIAA-CREF* Idaho College Savings Program	235,000	$4,000 S $8,000 J				1	1	0.92	*idsaves.com* 866-433-2533
	ILLINOIS *Salomon Smith Barney* Bright Start College Savings Program	160,000	0 S 0 J	✓			1	1	0.99	*brightstartsavings.com* 877-432-7444
	INDIANA *Bank One* Indiana Family College Savings Plan	114,548	0 S 0 J				2	2	1.06	*incollegesave.com* 888-814-6800

Notes: [1]Lifetime. [2]Expense ratios are for youngest age-based portfolio, unless otherwise noted. [3]Plan available spring 2001. [4]Maximum contribution varies by age of beneficiary. [5]Equity and fixed-income options available spring 2001. [6]Equity funds available spring 2001. [7]Class A SM&R Equity Income Fund; shares also carry a 5% sales charge, which is waived if you buy direct.

Previous page: Rug, cushions, throws and frame from Crate & Barrel, New York City fident that, by the time you finish this article, you'll have a precise understanding of how 529s work—and how best to make them work.

SECTION 1 ENTRANCE EXAM

Shortcomings and all, 529 plans are a hard-to-beat way to boost your college savings—provided you meet one of these four criteria:

You're in an above-average federal tax bracket, with time to save. The critical advantage that 529 plans offer is tax-deferred compounding. And as investors schooled in the basics of 401(k)s and IRAs know, the higher your tax bracket and the longer your time horizon, the more tax-sheltered compounding can add up.

In theory, you could build a tax-efficient college savings portfolio without a 529: Simply buy and hold top-quality individual stocks or mutual funds that keep taxable distributions to a minimum (like those on page 70). That way, you won't pay taxes until you need your money. The problem, however, is that as your child nears college age, employing a pure buy-and-hold strategy isn't necessarily a good idea. The last thing you want is to have your college nest egg stung by a bear market (like the one we've felt recently). So even when your child is in middle school, you should start shifting college savings out of stocks and into lower-risk bonds and cash. All that asset shifting triggers tax bills—something that doesn't happen with 529 plans that adjust allocations for you. "The real-world advantage of investing tax-sheltered in a 529 beats the theoretical advantage of investing for low capital-gains taxes," notes Raleigh, N.C. financial adviser Brian Orol.

When you compare a 529 plan with a balanced fund that shifts between stocks and bonds, the tax advantages are obvious. According to TIAA-CREF, an investor in the 31% tax bracket (adjusted gross income of $105,950 or more for married couples filing jointly; $90,800 for single heads of households) who saves in a 529 plan for 18 years would come away with 20.5% more than someone who puts the same amount in the typical taxable balanced fund. Investors in lower tax brackets can benefit as well, but, as you'll see below, those parents need to focus on more than taxes.

You are unlikely to qualify for need-based financial aid. As adviser Raymond Loewe of College Money, a planning firm in Marlton, N.J., puts it, "The tax savings you get in a 529 plan blow up when it comes time to qualify for aid." Here's why. Under financial aid formulas, 529s are counted as the parents' asset until you withdraw the money. That's when the problem sets in. Gains from a 529 count as the stu-

LEAST TAXING

The states with the most generous deductions:

COLORADO Unlimited

NEW MEXICO Unlimited

MISSISSIPPI $10,000 for singles; $20,000 joint

MISSOURI $8,000, single and joint

MICHIGAN $5,000 single; $10,000 joint

NEW YORK $5,000 single; $10,000 joint

LOWEST FEES

Age-based plans with the lowest expense ratios:

UTAH 0.31% of assets

NEW JERSEY 0.50%

MICHIGAN 0.65%

MISSOURI 0.65%

NEW YORK 0.65%

STATE/MANAGER PLAN NAME	MAXIMUM CONTRIB.[1]	STATE TAX BREAKS: MAX. ANNUAL DEDUCTION SINGLE/JOINT	STATE TAX BREAKS: TAX-FREE WITHDRAWALS	AGE-BASED ASSET ALLOCATION EQUITY/FIXED INC.: AT AGE THREE	AGE-BASED ASSET ALLOCATION EQUITY/FIXED INC.: AT AGE TEN	NUMBER OF NON-AGE-BASED FUND OPTIONS: EQUITY	NUMBER OF NON-AGE-BASED FUND OPTIONS: FIXED INCOME	EXPENSE RATIO[2]	WEBSITE (WWW.) TELEPHONE
IOWA *Vanguard/state treasurer* College Savings Iowa	$140,221	$2,112[6] S 2,112[6] J	✓			—	—	0.79%	*collegesavingsiowa.com* 888-672-9116
KANSAS *American Century* Learning Quest	127,000	2,000[6] S 4,000[6] J				—	—	1.22[8]	*learningquestsavings.com* 800-579-2203
KENTUCKY *TIAA-CREF* Kentucky Education Savings Plan Trust[4]	235,000	0 S 0 J	✓			1	—	0.80	*kentuckytrust.org* 877-598-7878
LOUISIANA *State treasurer* START Savings Program[3]	281,543[5]	2,400[6] S 2,400[6] J	✓	—	—	—	1	0.00	*osfa.state.la.us* 800-259-5626
MAINE *Merrill Lynch* NextGen College Investing Plan	153,000	0 S 0 J	✓			8	2	1.85[9]	*nextgenplan.com* 877-463-9843
MASSACHUSETTS *Fidelity* U. Fund College Investing Plan	171,125	0 S 0 J				2[7]	—	1.04	*fidelity.com/ufund* 800-544-2776
MICHIGAN *TIAA-CREF* Michigan Education Savings Program	125,000	5,000 S 10,000 J	✓			1	1	0.65	*misaves.com* 877-861-6377
MINNESOTA *TIAA-CREF* Minnesota College Savings Plan[4]	100,000	0 S 0 J				1	1	0.65	*mheso.state.mn.us* 800-657-3866
MISSISSIPPI *TIAA-CREF* Mississippi Affordable College Savings Program	235,000	10,000 S 20,000 J	✓			1	1	0.92	*collegesavingsms.com* 800-486-3670
MISSOURI *TIAA-CREF* MOST (Missouri Saving for Tuition)	235,000	8,000 S 16,000 J	✓			1	1	0.65	*missourimost.org* 888-414-6678

Notes: [1] Lifetime. [2] Expense ratios are for youngest age-based portfolio, unless otherwise noted. [3] State residency requirement. [4] Plan available spring 2001. [5] Maximum contribution varies by age of beneficiary. [6] Per beneficiary. [7] Equity funds available spring 2001. [8] Age-3 and Age-10 allocations and the expense ratio are for the moderate age-based portfolio; conservative and aggressive options also available. [9] Expense ratio and fund options for Client Advisor series; expense ratio is 1.5% if you buy direct by phone or the Web.

Photo Credit

dent's income, up to 50% of which is considered available to pay tuition. The income from a taxable fund held in a parent's name is assessed at about the same rate (47%). The key difference is that the fund has been distributing gains all along, which reduces your taxable gain—and the number plugged into the aid formula—when the fund is sold to pay for college. Complicating matters even more is the fact that private schools can set their own rules. Plus, aid formulas will eventually be updated.

All this means is that anyone who might qualify for aid—parents currently earning less than $100,000—may be better off saving outside a 529. If you're in the 31% bracket, however, you probably won't qualify for substantial need-based aid. (Possible exceptions are families with more than one child in expensive colleges at the same time.) Even if you do qualify, you'll probably receive most aid in the form of loans, not grants. To avoid borrowing later, it makes sense to save in a 529.

What if your financial situation changes after you've begun funding a 529? If you later find yourself in a position where you are likely to be eligible for financial aid, try and wait to take withdrawals from your child's 529 until the last year of college, when it won't be counted against future financial aid.

You live in New York, Michigan or another high-tax state with significant 529 tax breaks. If your state offers a generous tax deduction on 529 contributions, take a serious look at the plan even if you are in a lower tax bracket. (State tax exemptions on withdrawn earnings are helpful but worth less than an up-front deduction.) In New York, for example, residents earning more than $40,000 are taxed at a rate of 6.85%; if you live in New York City, add on 3.78%. The state's 529 plan, run by TIAA-CREF, offers a state-tax deduction on contributions of up to $10,000 per household a year (no matter the number of kids), which can save New York City residents as much as $2,038 a year. That makes the plan a clear choice for most New Yorkers, says Anthony Ogorek, a financial adviser in Buffalo. To calculate the value of your deduction elsewhere, go to www.money.com.

You're a grandparent looking to reduce your estate. You can deposit up to $50,000 ($100,000 for a married couple) into a 529 plan without incurring the federal gift tax, making 529s an ideal way to move a big sum out of your estate quickly. A $50,000 contribution is counted against your $10,000 annual gift exclusion over five years, so you won't be able to make another tax-free gift to that beneficiary for six years.

SECTION 2 HEAD OF THE CLASS

Okay, you're sold on 529s. But which one is best for you? As you can see from our state-

- **Recommended** for residents and national shoppers
- **Recommended** for state residents only
- **Caution:** high expenses or sales charges may apply
- Plan being **overhauled**
- Plan **not open** yet

STATE/MANAGER PLAN NAME	MAXIMUM CONTRIB.[1]	STATE TAX BREAKS: MAX. ANNUAL DEDUCTION SINGLE/JOINT	STATE TAX BREAKS: TAX-FREE WITHDRAWALS	AGE-BASED ASSET ALLOCATION EQUITY/FIXED INC.: AT AGE THREE	AGE-BASED ASSET ALLOCATION EQUITY/FIXED INC.: AT AGE TEN	NUMBER OF NON-AGE-BASED FUND OPTIONS: EQUITY	NUMBER OF NON-AGE-BASED FUND OPTIONS: FIXED INCOME	EXPENSE RATIO[2]	WEBSITE (WWW.) TELEPHONE
NEBRASKA *Union Bank & Trust* College Savings Plan of Nebraska[3]	$165,000	$1,000 S 1,000 J	✓			3	3	1.01%[11]	*planforcollegenow.com* 888-993-3746
NEW HAMPSHIRE *Fidelity* Unique College Investing Plan	166,600	NO STATE INCOME TAX[7]				2[9]	—	1.10	*fidelity.com/unique* 800-544-1722
NEW JERSEY *State treasurer* NJBEST[4]	150,000	0 S 0 J	✓			—	—	0.50	*hesaa.org* 877-465-2378
NEW MEXICO *State Street* The Education Plan	160,539	NO LIMIT	✓			4	5	1.29	*theeducationplan.com* 877-337-5268
NEW YORK *TIAA-CREF* New York's College Savings Program	100,000	5,000 S 10,000 J	✓			1	1	0.65[12]	*nysaves.org* 877-697-2837
NORTH CAROLINA *State treasurer* College Vision Fund[5]	187,500	0 S 0 J	✓	—	—	—	1	0.50	*collegevisionfund.org* 800-600-3453
NORTH DAKOTA *Morgan Stanley* College Save[6]	TBA	0 S 0 J		TBA		TBA		TBA	*TBA* 800-472-2166
OHIO *Putnam* College Advantage Savings Plan	229,000	2,000[8] S 2,000[8] J	✓			2	—	1.27[13]	*collegeadvantage.com* 800-233-6734
OKLAHOMA *TIAA-CREF* Oklahoma College Savings Plan	235,000	0 S 0 J				1[10]	1[10]	0.83	*oksaving.org* 877-654-7284

Notes: TBA: To be announced. [1]Lifetime. [2]Expense ratios are for youngest age-based portfolio, unless otherwise noted. [3]Advisor series available spring 2001. [4]Plan available for state residents only. [5]Plan available for state residents only; age-based and equity funds coming in July 2001. [6]Plan available spring 2001. [7]There is a tax on unearned income that is waived for the 529 plan. [8]Per beneficiary; can carry forward. [9]Equity fund options available second quarter 2001. [10]Funds available April 2001. [11]Allocations and expenses for growth portfolio. [12]Allocations and expenses for managed portfolio. [13]Expense ratio for Class A shares, which carry a 3.5% sales charge; Ohio residents can buy direct for no commission and pay 1.05% in expenses.

by-state tables, no two programs are alike—they differ dramatically in many ways, from investment choices to costs to tax breaks.

Your first step should be to look at your own state's plan (if it has one). In five states, you may qualify for a matching grant or scholarship (see "State Aid" on page 103). More important, 16 states give residents a tax deduction on 529 contributions, and 25 exempt the earnings on withdrawals (six exempt earnings on out-of-state plans as well). Thirteen states offer both breaks. If your state taxes are high and your local plan offers generous tax benefits, you can stop reading here: You're best off staying at home.

But what if you live in a state with low or no taxes—or with limited tax breaks? Then it's time to shop around. In the tables, we've indicated our five favorite plans—Iowa, Michigan, Missouri, New York and Utah. But your family's specific needs may point you in another direction. We'd suggest that you do your own comparison shopping using the following three rules.

Shop for a manager, not a performer. Given the short track record of 529 plans, you can't glean much from the funds' performance history. So stick with plans run by investment companies with successful records managing retail mutual funds and pension plans, such as Vanguard, Fidelity and TIAA-CREF, to name a few. At TIAA-CREF, for example, the same team that manages retail funds also guides the 529 portfolios.

Stick with low-cost plans. Expense ratios vary considerably, from 0.31% in Utah to 2.24% in Oregon. Some states' plans are sold by brokers, which layers on additional costs. If you buy the Arizona, Ohio, Rhode Island or Wisconsin plans through a broker, for instance, you could pay 3.25% to 5% up front in commissions. With all four plans, you can avoid a sales charge by buying direct, although in Ohio and Rhode Island you must be a resident to

What's up with the other states

STATE	STATUS
ALABAMA	Legislation to authorize a college savings plan is pending.
DISTRICT OF COLUMBIA	No statehood means no 529 savings plan.
FLORIDA	Expects to open a college savings plan by midyear. State has no income tax.
GEORGIA	The state legislature approved a plan in March.
HAWAII	Expects to open a college savings plan by midyear.
MARYLAND	Expects to open a plan this fall. Residents will be able to deduct up to $2,500 in contributions (single and joint filers); withdrawals will be state-tax-free.
MONTANA	The state's only 529 plan is a prepaid tuition plan.
NEVADA	Legislation is pending. State has no income tax.
SOUTH CAROLINA	No legislation is in the works.
SOUTH DAKOTA	The state legislature approved a plan in March. State has no income tax.
TEXAS	Legislation is pending. State has no income tax.
WASHINGTON	Legislation is pending. State has no income tax.
WEST VIRGINIA	Legislation is pending. As proposed, withdrawals will be state-tax-free and contributions will be fully deductible.

STATE/MANAGER PLAN NAME	MAXIMUM CONTRIB.[1]	STATE TAX BREAKS: MAX. ANNUAL DEDUCTION SINGLE/JOINT	STATE TAX BREAKS: TAX-FREE WITH-DRAWALS	AGE-BASED ASSET ALLOCATION EQUITY/FIXED INC.: AT AGE THREE	AGE-BASED ASSET ALLOCATION EQUITY/FIXED INC.: AT AGE TEN	NUMBER OF NON-AGE-BASED FUND OPTIONS: EQUITY	NUMBER OF NON-AGE-BASED FUND OPTIONS: FIXED INCOME	EXPENSE RATIO[2]	WEBSITE (WWW.) TELEPHONE
OREGON *Strong* Oregon College Savings Plan[3]	$150,000	$2,000 S 2,000 J				2	1	2.24%[8]	*oregoncollegesavings.com* 866-772-8464
PENNSYLVANIA *State treasurer* Pennsylvania Tuition Account Program[4]	170,000	0 S 0 J	✓	—	—		1	0.00	*patap.org* 800-440-400
RHODE ISLAND *Alliance Capital* CollegeBoundfund	246,023	0 S 0 J				3	—	1.25[9]	*collegeboundfund.com* 888-324-5057
TENNESSEE *TIAA-CREF* Tennessee's BEST Savings Plan	100,000	NO STATE INCOME TAX[5]				—	—	0.95	*tnbest.org* 888-486-2378
UTAH *Vanguard/state treasurer* Utah Educational Savings Plan	160,000	1,365 S 2,730 J	✓			1	1	0.31[10]	*uesp.org* 800-418-2551
VERMONT *TIAA-CREF* Vermont Higher Education Savings Plan[3]	100,000	0 S 0 J	✓			1[7]	1	0.80	*vsac.org* 800-637-5860
VIRGINIA *State treasurer* Virginia Education Savings Trust	100,000	2,000[6] S 2,000[6] J	✓			—	—	1.00	*vpep.state.va.us* 888-567-0540
WISCONSIN *Strong* EdVest Wisconsin College Savings Program	246,000	3,000[6] S 3,000[6] J	✓			4	2	1.65[11]	*edvest.state.wi.us* 888-338-3789
WYOMING *Merrill Lynch* The College Achievement Plan	120,000	NO STATE INCOME TAX				2	1	1.57	*collegeachievementplan.com* 877-529-2655

Notes: [1]Lifetime. [2]Expense ratios are for youngest age-based portfolio, unless otherwise noted. [3]State residency requirement; available nationally in 2001. [4]More fund options available fall 2001. [5]There is a tax on unearned income that is waived for the 529. [6]Per beneficiary; can carry forward in Va. [7]Equity and age-based funds available second quarter 2001. [8]Expense ratio for broker-sold shares includes 0.65% sales charge; if buy direct, expenses are 1.59%. [9]Expense ratio for class A shares, which carry a 3.25% sales charge; R.I. residents can buy direct with no sales charge and pay 1% in expenses; allocations for growth portfolio. [10]Allocations for option two. [11]Expense ratio for class A shares, which carry 3.5% sales charge; can buy direct and pay 1.25% in expenses.

do so. The Maine plan run by Merrill Lynch comes in two versions: one with four funds that's sold directly by phone—and a broker-sold series with more funds but higher fees.

You could also pay other fees. About half a dozen states charge to open an account (usually $10—but $85 in Virginia). Fourteen plans tack on $25 or so in annual fees, although you can often get the up-front or annual fee waived if you sign up for an automatic investment program—or if you buy directly by phone or the Web.

Look for the right investment choices, not the most. The typical 529 menu is still fairly limited. In most plans, the key offering is an age-based portfolio, which gradually shifts the asset allocation as your child ages. For children under three, for example, some 80% of the portfolio may be stashed in stocks. As your child grows, the equity portion shrinks, so that by the time he or she is 18, the assets are held mainly in bonds or cash, ensuring that you can meet that first tuition bill.

Increasingly, states are adding conventional stock and bond funds to the original age-based portfolios. Maine, Nebraska and Arizona now offer 10 or more funds, including foreign and technology portfolios. But because you can't switch your money around freely the way you can in a 401(k), a vast number of choices isn't

The 10 most frequently asked 529 questions

Q. What's so great about 529 plans?
A. Chiefly, the tax breaks. Your money grows tax-free until it's withdrawn, when the earnings are taxed at the student's rate—typically 15%. In 28 states (and counting), residents get additional tax breaks, such as a deduction on contributions or a tax exemption on withdrawals.

Q. Can anyone open a 529 account for any child?
A. Generally, you ("the account holder") can open an account on behalf of nearly any child ("the beneficiary"), regardless of your income. Grandparents, for example, can save on behalf of grandchildren. You can even put away money for someone who's not a family member. Six states currently require either the account owner or the beneficiary to be residents (or, in Kentucky, a former resident).

Q. Can two people open an account for the same child?
A. You can open more than one account in a single state for the same child, and more than one person can fund a 529 for the same beneficiary. No matter the number of accounts, the state's maximum contribution limit still applies to the beneficiary. States don't have to count balances in out-of-state accounts when determining whether you've met your limit, but some have started doing so.

Q. What if I need to tap the plan?
A. You can get a refund anytime, but you'll pay taxes plus a penalty on the earnings—usually 10%—if the money is not used for higher education. In Michigan, you'll be penalized on the entire withdrawal.

Q. Does my child have to go to a state school?
A. You can use the money at any accredited degree-granting school, private, public, undergraduate or graduate.

Q. What kind of educational costs can the money be used for?
A. In all states, tuition qualifies. Most states also permit 529 money to be used for other costs, such as room, board, fees and books.

Q. What if my child doesn't go to college or has money left over?
A. You can take out the money, paying taxes and penalties. In most states, you can leave money in the plan indefinitely, in the hopes that your child will eventually go to college. (The exceptions include Iowa, Nebraska, Utah and Virginia.) A third option is to name a new beneficiary. If your child dies or becomes disabled, most states will waive penalties on withdrawals.

Q. What happens if I move to a different state—can I switch plans?
A. You can leave your money in the plan; you'll lose any state tax deduction on future contributions and state tax exemptions on withdrawals, but the money will still grow tax-deferred. You can also roll the money into another state's plan, but it's a cumbersome process. You first request a transfer and name a new beneficiary, who must be related to the original one. (This could be a sibling, parent, aunt, nephew—nearly anyone except a first cousin.) Some states will then do a direct rollover. If not, you have to withdraw the money and reinvest it within 60 days to avoid taxes and penalties. (Indiana imposes a 10% penalty regardless; Pennsylvania hits you with the penalty and taxes.) Either way, you then switch back to the original beneficiary.

Q. Can I switch investment options?
A. Not without going through the rollover process described above. An easier alternative is to open another account for the same beneficiary and invest new money in a different fund.

Q. Can I also use an Education IRA?
A. You can't put money in a 529 and a tax-deferred Education IRA for the same beneficiary in the same year.

Power of the state

Sure, tax deferral is great. But—as this example shows—a 529 can pay off in many ways. Michigan parents saving $2,500 a year for 18 years in the state's 529 plan would end up with $87,349 after taxes vs. $69,612 if they'd invested in a taxable balanced fund. Nearly a third of the difference is due to state tax perks—the tax savings from the deduction and the exemption on withdrawals.

Notes: Assumes 30% federal tax bracket and 4.3% state tax bracket for the parents, 15% federal bracket for the child, and real average annual returns of 7% for stocks, 3.5% for bonds and 2% for cash. Expense ratio is 0.65% for 529 plan, 1.29% for balanced fund. Source: TIAA-CREF.

much of an advantage—and potentially riskier.

For most investors, the best choice is an age-based portfolio. In the past, these funds were criticized by financial advisers, as well as by MONEY, as being too heavily oriented toward fixed-income assets, even during the child's youngest years. But in light of the recent market bloodbath, a conservative strategy suddenly looks more sensible. "People forget that they usually have fewer years to save for college than for retirement—most often 10 years or less, since they tend to start late," notes TIAA-CREF vice president Timothy Lane. "If you lose a lot in the early years, it's very hard to make it up."

To help you find a mix that suits your tolerance for risk, we included allocations for three- and 10-year-olds in our state-by-state tables. Five states also now offer two or more types of age-based portfolio (see "Pick Your Risk" at right), with allocations designed to suit either risk-oriented or cautious investors. You can also create your own stock and bond mix by opening more than one account in the child's name—one for each asset class—and controlling your own allocation by the amounts you invest in each. Another strategy: If you don't like the asset mix choice designed for your child's age, find out if you can use a portfolio for a different age. Some states, such as Colorado and Virginia, let you pick your own starting point.

SECTION 3 YOUR ASSIGNMENTS

Once you're ensconced in a 529 plan, review its growth twice a year to make sure you're saving enough. When it comes time to make withdrawals, you cannot pay the taxes with money from the 529, since that's not a higher education expense. So be sure to tuck away enough cash to finance the tax bill.

If you aren't relying on an age-based portfolio to regularly shift allocations, it's important to make those changes yourself so that you don't get caught short in a market downturn. To do so, you may need to roll over your existing account (see the Q&A box on the facing page for details on how to do this).

One more point to keep in mind, notes Judy Miller, a college financial adviser in Alameda, Calif.: State contracts with money managers to operate 529 plans are typically set for just five to eight years. So your state may switch your manager down the line. But chances are, by that point, 529s really will be the equivalent of 401(k)s, and you can simply pick up the phone and move your money if you aren't happy with the change.

PICK YOUR RISK

In these states, you have a choice of investing styles—from conservative to aggressive—for your age-based portfolio.

KANSAS Three styles

NEBRASKA Four

NEW YORK Two

RHODE ISLAND Two

UTAH Two

STATE AID

If you live in one of these states, you may qualify for a matching grant or scholarship.

NEW JERSEY Up to $1,500 in scholarships, good at a state school, if you invest for 12 years.

LOUISIANA Tuition grants equal to 2% to 14% of your contribution, depending on income.

MICHIGAN A $1 match for every $3 invested the first year, up to $200, for those earning $80,000 a year or less and beneficiaries six or younger.

MINNESOTA A 15% match, up to $300 a year, if earning $50,000 or less; 5%, up to $300, if earning $50,000 to $80,000.

PENNSYLVANIA A 50% match, up to $300, for the first two years if the family earns no more than twice the state poverty level.

For more information on tuition savings programs
administered by TIAA-CREF Tuition Financing, Inc.,
please call 1-888-381-8283 or visit www.tiaa-cref.org/tuition.

TIAA CREF

The information contained in this article was compiled by *Money* magazine. The article does not contain all pertinent information relating to the programs and certain program details may have changed since the date of the article. The program disclosure booklet should be read carefully before opening an account. To request copies of a program disclosure booklet, please call 1 888 381-8283 or visit the TIAA-CREF web site at www.tiaa-cref.org/tuition. The information presented in the chart on page 7 is for illustrative purposes only and does not reflect actual performance, or predict future results, of the program. The states, their agencies, TFI, TIAA and its affiliates do not insure any account or guarantee its principal or investment return. Account value will fluctuate based upon a number of factors, including general financial market conditions. Investments are made through Teachers Personal Investors Services, Inc., as distributor.

The St. Charles County Community College Board of Trustees has voted to change the college's "public" name to St. Charles Community College. The college's official name, established in state statute, remains the same.

OFFICERS, from page 1

Missouri House of Representatives from 1986 until 1998. She served on the House Budget Committee (1991-98) and the House Appropriations-Education and Public Safety Committee (1989-98), among others. During her legislative tenure, she also served on the Missouri Business and Education Partnership Commission and was president of the Women Legislators of Missouri. She served on the Center #58 Board of Education from 1977 until 1986 and as the board president from 1979 until 1984. She received a B.A. from the University of Nebraska and attended the University of Kansas City.

Summers joined the Coordinating Board in April 1998. He owns The Prudential, Summers, Realtors and is a past director of the Missouri Association of Realtors. He served on the Missouri Western State College Board of Regents from January 1983 until April 1990, including a term as president. Summers has been a member of a number of civic organizations and is a trustee of the Townsend Educational Trust and the Calla E. Varner Education Foundation. He received a B.S. and an M.Ed. from the University of Missouri-Columbia.

CBHE Calendar

CBHE and Presidential Advisory Committee Meetings	October 11, 2001 Linn State Technical College, Linn
Governor's Conference and CBHE Meeting	December 6, 2001 Marriott Downtown, Kansas City
CBHE and Presidential Advisory Committee Meetings and Transfer and Articulation Conference	February 7, 2002 Location to be determined
CBHE and Presidential Advisory Committee Meetings	April 11, 2002 Columbia College, Columbia
CBHE and Presidential Advisory Committee Meetings	June 6, 2002 East Central College, Union
CBHE and Presidential Advisory Committee Meetings	October 10, 2002 Harris-Stowe State College, St. Louis
Governor's Conference and CBHE Meeting	December 5, 2002 Holiday Inn University Plaza Hotel, Springfield

Mark Your Calendar

2001 Governor's Conference on Higher Education

December 6

Marriott Downtown Kansas City

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FIRST CLASS

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